To: State of Michigan
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Q13. Has Michigan, and have other jurisdictions, imposed spending caps? If so, what has the experience been?

Section 89 of PA 295 sets out a spending limit and a revenue recovery limit for Michigan's utility energy optimization programs. The spending limit in Section 89(7) for 2012 and beyond is 2% of total retail sales revenues for the two preceding years. While the Commission may authorize additional spending beyond these caps, the amount of energy optimization program costs that ***may be recovered*** from ratepayers is capped at 1.7% of total retail sales revenues for natural gas utilities, and at 2.2% of total retail sales revenue for electric utilities. These recovery caps act as hard-stops on utility efficiency investment.

The effect of these caps, when combined with the statutory requirement that all energy efficiency programs be determined to be cost-effective under the utility system resource cost test (USRCT), is merely to undermine progress toward lowering utility system costs. In other words, the caps limit the amount of money the utility may spend on efficiency, even when additional spending would create a net reduction in electricity bills by avoiding the need for more expensive generation, transmission and distribution of electricity. Simply put, the energy efficiency spending and recovery caps force utilities to spend money on less cost-effective resources.

While some other states have imposed spending caps, others have taken the view that the utilities should invest in all cost-effective energy efficiency before investing in more expensive supply options. Both California and Massachusetts require utilities to capture all of the savings that is cost-effective, for example. Illinois can be thought of as a hybrid of these two approaches. The Illinois energy efficiency portfolio standard (EEPS) passed in 2007 does include a hard cap on utility budgets. However, in 2011 the legislature passed complementary legislation requiring the Illinois Power Agency to include in its annual procurement plan for residential and small business customers all energy efficiency investment that is cost-effective over and above the savings from the EEPS, as determined through a utility assessment submitted each year.

In a 2011 study prepared for PennFuture, analysts at Optimal Energy compared the potential bill savings for Pennsylvania electricity customers in a budget-capped scenario, versus a scenario in which the budget constraints for energy efficiency programs were eliminated. They found that annual savings of $932 million for customers in the capped scenario, and annual

savings of $1.6 billion in the uncapped scenario.
http://www.pennfuture.org/UserFiles/File/FactSheets/Report_Act129goals_20111220.pdf

Another effect of the spending caps is to force utilities to focus on low-hanging fruit in order to meet savings targets, as opposed to investing in deeper retrofit programs with longer-term savings.

There is ample evidence that constraining budgets for cost-effective energy efficiency investments is counterproductive and creates enormous lost savings opportunities and unintended consequences in program design and delivery.